

Message Text

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64

ORIGIN EB-11

INFO OCT-01 EUR-25 EA-11 NEA-10 ADP-00 TRSE-00 XMB-07

COME-00 CEA-02 FRB-02 AID-20 IGA-02 PM-07 NSC-10

SS-15 RSC-01 L-03 H-02 CIAE-00 INR-10 NSAE-00 PA-03

PRS-01 USIA-12 CIEP-02 STR-08 DPW-01 SR-02 ORM-03

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DRAFTED BY EB/ IFD/ ODF: MCASSE: DJA

5/22/73 EXT 21548

APPROVED BY AA/ ASIA: DMACDONALD

EB/ IFD: SWEINTRAUB

EB/ IFD/ ODF: REBENEDICK

NEA/ PAB: BLAINGEN

TREASURY/ LARSEN (SUBS.) L/ EB: PRESSLER(INFO)

EXIM: HAMMOND (INFO) GC/ ASIA: STEIN(INFO)

ASIA/ SA: HREES

ASIA/ NE; LANGMAID ASIA/ PL; SLEVINE

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P 222321 Z MAY 73

FM SECSTATE WASHDC

TO AMEMBASSY BONN PRIORITY

AMEMBASSY LONDON PRIORITY

AMEMBASSY PARIS PRIORITY

AMEMBASSY TOKYO PRIORITY

AMEMBASSY ROME PRIORITY

AMEMBASSY THE HAGUE PRIORITY

AMEMBASSY BRUSSELS PRIORITY

AMEMBASSY OTTAWA PRIORITY

AMEMBASSY ISLAMABAD PRIORITY

AMEMBASSY DACCA PRIORITY

C O N F I D E N T I A L STATE 098396

E. O. 11652: GDS

TAGS: EFIN, BG, PK, IBRD

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SUBJECT: PAKISTAN/ BANGLADESH DEBT

1. THOROUGH REVIEW AND REASSESSMENT OF U. S. POSITION RE
PAKISTAN/ BANGLADESH DEBT TOOK PLACE AT INTERAGENCY MEETING MAY 16.

2. AT MARCH MEETINGS IN PARIS AND DACCA, CREDITORS
ATTEMPTED TO FORESTALL A DEFAULT SITUATION AND FACILITATE
AN EARLY DEBT DIVISION BY

A) OFFERING PAKISTAN ONE- YEAR EXTENSION OF CURRENT
RESCHEDULING AGREEMENT, WITH CONTINUED LIABILITY FOR TOTAL
DEBT (RESCHEDULING WOULD INVOLVE DOLS 108 MILLION,
VS. APPROXIMATELY DOLS 80 MILLION WHICH PAKISTAN CLAIMS TO
BE RESPONSIBILITY OF BANGLADESH), AS A MEANS OF BUYING TIME.

B) OFFERING BANGLADESH A RESCHEDULING OF ANY DEBT
ASSUMED BY IT ON TERMS FULLY CONSISTENT WITH ITS ECONOMIC
SITUATION, TO INDUCE ITS EARLY ASSUMPTION OF LIABILITY
FOR AN APPROPRIATE SHARE OF THE DEBT.

C) MAKING PLEDGES ON DEVELOPMENT ASSISTANCE TO BOTH
COUNTRIES (NOT RPT NOT HUMANITARIAN AID) CONDITIONAL ON A
SATISFACTORY RESOLUTION OF THE DEBT PROBLEM.

D) MAINTAINING A CORPORATE APPROACH TO BD AND PAKISTAN.

3. ALTHOUGH THE CREDITORS REITERATED THAT PAKISTAN RETAINS
LEGAL LIABILITY FOR THE TOTAL PRE- BANGLADESH DEBT UNTIL
AGREEMENT ON A DIVISION IS REACHED, THE BROADER EQUITIES
OF THE SITUATION WERE ALSO RECOGNIZED IN STATEMENTS
THAT BANGLADESH SHOULD EVENTUALLY ASSUME AN APPROPRIATE
SHARE. THE DETERMINATION OF THAT SHARE SHOULD IDEALLY BE
LEFT TO NEGOTIATION BETWEEN BANGLADESH AND PAKISTAN, AND
NOT IMPOSED BY THE CREDITORS. THE IBRD PAPER SET FORTH
ONE POSSIBLE BASIS OF DIVISION, BUT WAS NOT FORMALLY ACCEPTED
BY THE CREDITORS AND THEREFORE HAS NO OFFICIAL STATUS.

4. OTHER EVENTS BEARING ON U. S. DELIBERATIONS INCLUDE:

A) AT PARIS, PAKISTAN WAS UNWILLING TO ACCEPT THE
CREDITOR' S PROPOSED EXTENSION OF THE CURRENT
RESCHEDULING UNLESS (1) IT PROVIDED FOR ABSOLUTION
FROM " EAST PAKISTAN" DEBTS AT THE EXPIRATION OF THE
EXTENSION AND (2) ALL " EAST PAKISTAN" CREDITS WERE COVERED
IN THE RESCHEDULING (I. E., ONE- THIRD OF TOTAL GOP
INDEBTEDNESS TENTATIVELY ASSIGNED TO BANGLADESH IN THE
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IBRD PAPER). IN DACCA, THE CREDITORS PRESENTED THE
PROBLEM TO THE BDG' S MINISTERIAL- LEVEL ADVISORY COMMITTEE.
THE COMMITTEE RESPONDED THAT BANGLADESH DID NOT WISH TO
BE INVOLVED IN THE DEBT MATTER UNTIL PAKISTAN EXTENDED
POLITICAL RECOGNITION, AND THEREAFTER DIVISION OF ASSETS MUST
BE DISCUSSED CONCURRENTLY WITH DIVISION OF LIABILITIES.

B) THE IBRD VP FOR ASIA, PETER CARGILL, PROPOSED, IN A

LETTER OF APRIL 25, THAT, SHOULD PAKISTAN DEFAULT ON
JULY 1, THE CREDITORS INSTITUTE A " HOLD" DURING WHICH THEY
WOULD NOT APPLY THE SANCTIONS CONTAINED IN THE
CONDITIONAL PLEDGES. HE WARNED THAT SUCH SANCTIONS MAY
CREATE A CRISIS ATMOSPHERE HARMFUL TO THE " DELICATE AND
PROMISING
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*** Current Classification *** CONFIDENTIAL

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BRUSSELS
Dacca
ISLAMABAD
LONDON
OTTAWA
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ROME
THE HAGUE
TOKYO

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